

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF IDAHO POWER COMPANY FOR)	CASE NO. IPC-E-05-15
AUTHORITY TO IMPLEMENT POWER)	
COST ADJUSTMENT (PCA) RATES FOR)	NOTICE OF APPLICATION
ELECTRIC SERVICE FROM MAY 16, 2005)	
THROUGH MAY 31, 2006)	NOTICE OF
)	MODIFIED PROCEDURE
)	
)	ORDER NO. 29763

On April 15, 2005, Idaho Power Company filed its annual power cost adjustment (PCA) Application. Since 1993 the PCA mechanism has permitted Idaho Power to adjust its rates upward or downward to reflect the Company's annual "power supply costs." Because of its predominant reliance on hydroelectric generation, Idaho Power's actual cost of providing electricity (its power supply costs) varies from year-to-year depending on changes in Snake River streamflow and the market price of power. The annual PCA surcharge or credit is combined with the Company's "base rates"¹ to produce a customer's overall energy rate.

In this PCA Application Idaho Power calculates that its annual power costs have increased by approximately \$28 million, or 4.75% higher than the current PCA rates. The Company also acknowledges that it has two other Applications before the Commission that, if approved, would increase base rates by more than 6%. The cumulative impact of all three cases (if approved) would result in a rate increase of more than 11% on June 1, 2005.

To mitigate the effects of such a substantial rate increase, the Company has proposed two PCA rate alternatives. The Commission could either approve the proposed PCA rate increase of 4.75%, or in the alternative, maintain the current PCA rates and defer recovery of the PCA costs until next year (June 1, 2006 to May 31, 2007). In essence, the second alternative would avoid any PCA rate increase this year.

¹ Base rates were set by the Commission in Idaho Power's last general rate case in September 2004 (Case No. IPC-E-03-13).

In this Order the Commission decides to process the PCA Application under Modified Procedure and establishes a schedule for written comments. The Commission invites interested persons to comment on the PCA Application and the Company's two rate proposals.

BACKGROUND

A. The PCA Mechanism

The annual PCA mechanism is comprised of three major components. First, PCA rates are adjusted to compensate for the forecast in Snake River streamflows and storage. In years of abundance of streamflows with correspondingly plentiful, relatively inexpensive hydro-generation, the Company's power supply costs are usually lower. Conversely, when streamflows or snow packs are low, Idaho Power must rely increasingly upon its other thermal generating resources and purchased power from the regional market. The Company's other thermal generating resources (coal and gas plants) and purchased power, are typically more costly than the Company's hydro-generation. Under the PCA mechanism, the Company may recover 90% of the difference between the projected power costs and the approved base power costs. Order No. 25880.

Second, because the PCA includes forecasted costs, the preceding year's forecasted costs are "true-up" to account for actual costs. Third, is the "true-up of the true-up." Idaho Power uses "normalized" power sales (measured in kilowatt hours (kWh)) from the ensuing PCA year as the denominator to computing the true-up of the true-up. Over or under recovery is balanced with the following years true-up. Thus, ratepayers will pay for the actual amount of power sold by Idaho Power to meet native load requirements – no more or no less. Order No. 29334 at 4. In summary, ratepayers receive a rate credit when power costs are low, but are assessed a surcharge when power costs are high.

B. The Two Base Rate Cases

As mentioned above, Idaho Power filed two cases that affect customer base rates. In September 2004 the Commission issued Order No. 29601 approving a settlement that resolved the Company's general rate case, No. IPC-E-03-13. The settlement related to the calculation of the Company's federal income tax expense. As approved in the settlement, the Company's base rates will increase by an average of 4.45% on June 1, 2005 to recover \$22.756 million of tax expense. Gale Dir. at 2; Exh. 6 (IPC-E-04-14). The 4.45% increase is comprised of two

components: a base rate increase of 2.2% for only one year and a base rate increase of 2.25% which is ongoing. In other words, after 12 months (on June 1, 2006), base rates would decrease by an overall 2.2%. *Id.*

In the second case filed in March 2005, Idaho Power seeks to recover its costs of constructing the new Bennett Mountain generating facility located in Mountain Home, Idaho. The Company asserts that the cost of building the generating plant and the necessary transmission and interconnection facilities totaled \$58,022,983. Case No. IPC-E-05-10, Order No. 29748. To recover these costs, the Company proposes to increase its base rates by a uniform percentage increase of approximately 1.84%. The Company requests that this proposed increase to its base rates become effective June 1, 2005.

NOTICE OF PCA APPLICATION

YOU ARE HEREBY NOTIFIED that this year's PCA Application includes the forecasted costs based on water condition; a true-up of last year's forecasted costs to reflect actual costs; and the true-up of the 2004-2005 PCA year true-up (the true-up of the true-up). This year's water forecast for April through July inflows at Brownlee Reservoir is 2.18 million-acre feet (maf). The 30-year average inflows at Brownlee are 6.3 maf. This year's water forecast is roughly 67% below the 30-year average, or the third worst year in the last 30 years.

YOU ARE FURTHER NOTIFIED that based upon the projected water inflow and replacement power costs, the Company calculates that the projected power supply costs are \$155,390,795 for the 2005-2006 PCA year (June 1, 2005 to May 31, 2006). The projected power costs equal 1.2080¢ per kWh. The 1.2080¢ per kWh estimate for projected power costs is 0.4765¢ per kWh higher than the Commission's approved base of 0.7315¢ per kWh. Consequently, the Company is proposing to collect 0.4288¢ per kWh (90% of 0.4765¢) for the power cost projection component. Application at 3-4; Schwendiman Dir. at 4.

YOU ARE FURTHER NOTIFIED that Idaho Power reports that the unrecovered difference between last year's forecast costs and actual costs (the true-up) is \$36,285,912. Schwendiman Dir. at 4. The PCA true-up component also includes several additional items previously approved by the Commission. Application at 4. These additional items include the customer benefits associated with settlement of the Valmy outage, the growth rate adjustment, non-recurring tax credit issues, and the Bonneville Power Administration water option agreement

credit. The true-up also included cloud seeding expenses authorized by the Commission in Order No. 29670 (\$690,550) and the recovery of the Company's "lost revenue" (\$13,482,882) as ordered by the Idaho Supreme Court in Case No. IPC-E-01-34. Adding the subcomponents to the true-up balance equals \$49,768,794 to be collected. This amount is then divided by the estimate of total jurisdictional sales in CY 2004. Idaho Power witness Celeste Schwendiman calculates that the true-up portion of the PCA rate is 0.3996¢ per kWh. Dir. Test. at 7.

YOU ARE FURTHER NOTIFIED that the third PCA rate element is the "true-up of the true-up." Last year the Company collected all but \$635,653 of the PCA deferral balance. Dividing this amount by the 2004 Idaho jurisdictional sales results in a PCA true-up of the true-up rate element of 0.0051¢ per kWh. Combining the three components – the projected power costs of 0.4288¢, the true-up component of 0.3996¢ and the true-up of the true-up of 0.0051¢ – results in a PCA rate for the 2005-2006 PCA year of 0.8335¢ per kWh. This represents an increase of .2296¢ above the existing PCA rate of 0.6039¢ per kWh.

B. The Two PCA Rate Proposals

YOU ARE FURTHER NOTIFIED that Idaho Power has proposed two PCA rate alternatives. Under the first alternative, the Company would increase current PCA rates by .2296¢ for all classes or an average of 4.75% effective on June 1, 2005. This represents an overall percentage increase of 4.75% but due to the fixed cents adjustment, each customer class will receive a different percentage increase. The Table below shows the proposed increase in the major customer classes:

Customer Group (Schedule)	Overall % Increase
Residential (1)	3.75%
Small Commercial (7)	3.13%
Large Commercial (9)	5.34%
Industrial (19)	6.62%
Irrigation (24)	4.71%

The PCA rates for Idaho Power's three special contract customers would also increase. The proposed PCA rate increases would be: 7.41% for Micron; 7.84% for Simplot; and 7.71% for the Department of Energy. Schwendiman Exh. 6.

YOU ARE FURTHER NOTIFIED that the alternative PCA rate proposal is to continue the current PCA rates without any increase. Thus, the overall PCA rate would remain at the current level of 0.6039¢ per kWh. Application at 5. Idaho Power is proposing this “unique rate treatment” to avoid having both its base rates and PCA rates increase in 2005. *Id.*

YOU ARE FURTHER NOTIFIED that under the second alternative, Idaho Power proposes to defer recovery of a portion of this year’s PCA increase (\$28.6 million) until next year. Application at 5-6. Idaho Power’s vice-president, John Gale, stated two reasons for the deferral. First, deferring the PCA expenses until next year would reduce the overall rate increase that customers may experience on June 1, 2005. If the Commission only approves the base rate increases (1.84% for Bennett Mountain and 4.45% for the rate case settlement), overall energy rates would increase by 6.29%, instead of an 11.71% increase. Gale Dir. at 4. Second, there are offsetting rate changes scheduled to occur in 2006. As mentioned above, the 2.2% increase in base rates would expire on June 1, 2006. In addition, the 2005 PCA carry-over of \$28.6 million will be offset by an anticipated credit of \$9.65 million. Consequently, the actual deferral amount for the next PCA year would be approximately \$19 million. Gale Dir. at 8.

NOTICE OF MODIFIED PROCEDURE

YOU ARE FURTHER NOTIFIED that the Commission has determined that the public interest may not require a formal hearing in this matter and will proceed under Modified Procedure pursuant to Rules 201 through 204 of the Idaho Public Utilities Commission's Rules of Procedure, IDAPA 31.01.01.201 through .204. The Commission notes that Modified Procedure and written comments have proven to be an effective means for obtaining public input and participation.

YOU ARE FURTHER NOTIFIED that the Commission does not intend to hold a hearing in this proceeding unless it receives written protests or comments opposing the use of Modified Procedure. Persons desiring a hearing must specifically request a hearing in their written comments and state why Modified Procedure is inappropriate in this case.

YOU ARE FURTHER NOTIFIED that the Commission specifically invites comments regarding Idaho Power’s proposal to defer recovery of the PCA costs for one year. Any person desiring to state a position on this PCA Application **may file a written comment in support or opposition with the Commission no later than May 16, 2005.** The comment must

contain a statement of reasons supporting the comment. Written comments concerning this Application shall be mailed to the Commission and the Applicant at the addresses reflected below:

Commission Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise, ID 83720-0074

Street Address for Express Mail:

472 W. Washington Street
Boise, ID 83702-5983

Barton L. Kline, Senior Attorney
Monica Moen, Attorney II
Idaho Power Company

PO Box 70
Boise, ID 83707-0070

E-Mail: bkline@idahopower.com
mmoen@idahopower.com

Gregory W. Said
Idaho Power Company
PO Box 70
Boise, ID 83707-0070
E-mail: gsaid@idahopower.com

These comments should contain the case caption and case number shown on the first page of this document. Persons desiring to submit comments via e-mail may do so by accessing the Commission's home page located at www.puc.idaho.gov. Click the "Comments and Questions" icon, and complete the comment form, using the case number as it appears on the front of this document. These comments must also be sent to the Applicant at the e-mail addresses listed above.

YOU ARE FURTHER NOTIFIED that Idaho Power may file a written response to any comments, if it so desires, no later than May 19, 2005.

YOU ARE FURTHER NOTIFIED that the Idaho Power's PCA Application together with the Company's prefiled exhibits and testimony of John Gale and Celeste Schwendiman can be viewed at the Commission offices and at the principal office of Idaho Power during regular business hours. Idaho Power Company is located at 1221 West Idaho Street, Boise, Idaho ((208) 388-2323). Idaho Power's Application, prefiled testimonies and exhibits are also available on the Commission's Website at www.puc.idaho.gov under the "File Room" icon and then "Electric Cases."

YOU ARE FURTHER NOTIFIED that all proceedings in this case will be held pursuant to the Commission's jurisdiction under Title 61 of the Idaho Code and specifically

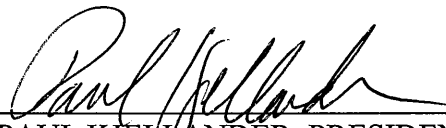
Idaho Code §§ 61-307, 61-503, and 61-622. The Commission may enter any final Order consistent with its authority under Title 61.

YOU ARE FURTHER NOTIFIED that all proceedings in this matter will be conducted pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

IT IS HEREBY ORDERED that this case be processed under Modified Procedure. Interested persons wishing to file comments must do so no later than May 16, 2005. Idaho Power may file reply comments no later than May 19, 2005.

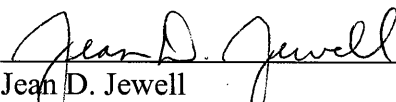
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 25th day of April 2005.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


DENNIS S. HANSEN, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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NOTICE OF APPLICATION
NOTICE OF MODIFIED PROCEDURE
ORDER NO. 29763